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INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

Report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its ninth session

SUMMARY

During its ninth session (5-15 March 1991), the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting fulfilled its primary objective and served as a global forum for the discussion of accounting and reporting issues. The Group considered current developments in accounting from a global perspective. In particular, it discussed important efforts under way to harmonize accounting standards and to deal with such problems as accounting for new financial instruments and intangible assets.

The Group also reviewed accounting developments in Central and Eastern Europe, where the pace of change has been particularly rapid. Those countries must not only revise their accounting regulations but must also provide for the creation of the accounting and auditing profession, as well as for accounting education and training. It was hoped that those countries would benefit from international accounting standards and international guidelines in education and auditing.

The Group also took up the technical subjects of accounting for joint ventures, accounting for environmental protection measures, accounting issues arising during privatization and the organization of the accounting profession, and

* E/C.10/1991/1.

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the role and education of auditors. The most important item considered was the renewal of the Group's mandate. The Group recommended a draft decision for adoption by the Commission whereby the mandate would be renewed and extended for five years. Various suggestions were made concerning the format for future sessions. The Group recommended alternating sessions on general subjects with sessions on specific subjects or on the problems of specific regions.

CONTENTS

Chapter		Paragraphs	Page
I.	MATTERS CALLING FOR ACTION BY THE COMMISSION ON TRANSNATIONAL CORPORATIONS	1	5
II.	PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING	2 - 72	7
	A. Review of important current developments at the global and national levels in the field of accounting and reporting by transnational corporations, on the basis of documentation received by the United Nations Centre on Transnational Corporations from individual member States, intergovernmental organizations and non-governmental organizations	2 - 15	7
	B. Discussion of accounting and reporting issues identified during the eighth session	16 - 52	10
	1. Accounting for and by joint ventures	16 - 23	10
	2. Accounting for environmental protection measures	24 - 32	17
	3. Accounting and reporting during and after the transition from State to private enterprises	33 - 42	21
	4. Organization of the accounting profession and the role and qualification of auditors	43 - 52	23
	C. Identification of accounting and reporting issues for discussion on a priority basis during future sessions	53 - 54	25
	D. Further steps to be taken in relation to the development of the comprehensive information system	55	25
	E. Accounting and reporting issues arising out of the future code of conduct on transnational corporations	56	28
	F. Appropriate measures to give effect to the work of the Group: renewal of the mandate and review of the objectives of the Group	57 - 71	28
	G. Ways and means of improving education, research and practical training in the field of accounting and reporting in member States	72	32

CONTENTS (continued)

Chapter		Paragraphs	Page
III.	ADOPTION OF THE REPORT OF THE GROUP ON ITS NINTH SESSION ..	73	32
IV.	ORGANIZATION OF THE SESSION	74 - 84	32
	A. Opening and duration of the session	74 - 76	32
	B. Membership and attendance	77 - 81	33
	C. Election of officers	82	34
	D. Agenda and organization of work	83	34
	E. Documentation	84	34
Annex.	List of documents before the group at its ninth session		35

I. MATTERS CALLING FOR ACTION BY THE COMMISSION ON TRANSNATIONAL CORPORATIONS

1. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting recommends to the Commission on Transnational Corporations the adoption of the following draft decisions:

DRAFT DECISION I

Report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its ninth session and provisional agenda and documentation for the tenth session of the Group

The Commission on Transnational Corporations decides:

(a) To approve the report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its ninth session;

(b) To approve the provisional agenda and documentation for the tenth session of the Group as set out below.

PROVISIONAL AGENDA AND DOCUMENTATION FOR THE TENTH SESSION OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

1. Election of officers.

2. Adoption of the agenda and other organizational matters.

3. Review of important current developments at the global and national levels in the field of accounting and reporting by transnational corporations, on the basis of documentation received by the United Nations Centre on Transnational Corporations from:

   (a) Individual member States;

   (b) Intergovernmental organizations;

   (c) Non-governmental organizations;

   Documentation

   Reports of the Secretary-General, including four separate reviews of important current developments in the field of accounting and reporting by transnational corporations, two at the global level, including one on the environment, and two at the national level, one on the development and use of accounting standards and the other on the environment

4. Accounting issues arising during privatization, including individual country case studies.

Documentation

Reports of the Secretary-General

5. Preparation of the 1993 session on education and training in developing countries and countries in transition.

Documentation

Reports of the Secretary-General

6. Identification of issues of accounting and reporting for discussion on a priority basis during future sessions.

Documentation

Report of the Secretary-General

7. Accounting and reporting issues arising out of the future code of conduct on transnational corporations.

Documentation

Reports of the Secretary-General

8. Provisional agenda for the eleventh session of the Group.

Documentation

Note by the Secretary-General on the draft provisional agenda for the eleventh session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting

9. Adoption of the report of the Group on its tenth session.

DRAFT DECISION II

Renewal of the mandate and review of the objectives of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting

The Commission on Transnational Corporations, considering that it would be more effective to alternate sessions of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on general subjects with sessions on specific subjects or on the problems of specific regions, recommends to the Economic and Social Council that it adopt the following draft resolution:

Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting

The Economic and Social Council,

Recalling its resolutions 1979/44 of 11 May 1979 and 1982/67 of 27 October 1982 and resolution 1988/1 adopted by the Commission on Transnational Corporations at its fourteenth session, 1/

Having considered the report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its ninth session, 2/

Acting upon the recommendation of the Group at its ninth session concerning its future work,

Decides to renew the existing mandate of the Group, contained in Economic and Social Council resolution 1982/67 of 27 October 1982, and to extend its duration from three to five years so that paragraph 4 (h) of that resolution would read:

"That the Commission on Transnational Corporations, at its annual session, shall keep under review the work of the Group; in particular, it shall review the mandate, terms of reference and achievements of the Group after five years, with a view to deciding on the advisability of its continuation".

II. PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

A. Review of important current developments at the global and national levels in the field of accounting and reporting by transnational corporations, on the basis of documentation received by the United Nations Centre on Transnational Corporations from individual member States, intergovernmental organizations and non-governmental organizations

2. At its 1st and 2nd meetings, on 5 March 1991, the Group discussed the report of the Secretary-General on important current developments at the global level in the field of accounting and reporting by transnational corporations (E/C.10/AC.3/1991/2). It found that the report was the best global review the Group had considered and was a thorough attempt to document global changes in the field of accounting and reporting. The report outlined a number of activities that

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1/ Official Records of the Economic and Social Council, 1988, Supplement No. 7 (E/1988/17), chap. I, sect. C.

2/ E/C.10/1991/12.

could contribute to greater harmonization of accounting standards, such as the comparability project of the International Accounting Standards Committee (IASC), the formation of the International Capital Markets Groups to study the real barriers to harmonization, the creation of the European Accounting Forum to advise the European Commission on technical solutions for accounting problems not dealt with in the directives of the Council of Ministers of the European Communities, the discussion of accounting services in the Uruguay Round of multilateral trade negotiations and the changes in commercial legislation in Central and Eastern Europe.

3. The observer for IASC described the recent work of his organization, in particular the comparability project. He stated that the International Organization of Securities and Exchange Commiss ns (IOSCO) was giving considerable support to the project. Once it was complete, it was the intention of IOSCO to require enterprises seeking listings on the various exchanges to use international accounting standards. One expert said that IASC should be congratulated on the effort it had invested in the comparability and improvements project. He also emphasized how important it was for the members of IOSCO to adopt, in due course, the resultant international standards as the basis of harmonization. Observers for other international organizations, such as the International Federation of Accountants and the International Assets Valuation Standards Committee, explained the work and recent activities of their organizations. One expert commented that, while efforts were taking place to harmonize accounting standards, efforts should also be undertaken to harmonize standard-setting activities among the various international organizations.

4. Much discussion centred around the accounting rules and practices of banks and insurance companies and the need for market valuation of securities. The observer for the European Community (EC) explained that the 1986 Council directive on the annual accounts and consolidated accounts of banks and financial institutions had introduced the principle of market valuation of securities for those bank securities that belonged to its dealing portfolio. It was expected that a similar EC directive concerning insurance companies would be adopted soon, which would extend the principle of market valuation to all investments held by an insurance company. If the investments were shown in the balance sheet at cost, the higher market value would have to be indicated in the notes.

5. The EC observer was also asked to comment on the EC rules regarding bad loan provisions in the case of banks. It was indicated that the situation in the EC was different from that in the United States because of a different regulatory environment. A distinction also had to be made between the general rules on financial reporting and the supervisory rules for which a number of specific measures had been adopted in the EC. As far as financial reporting was concerned, the EC accounting directive for banks did not contain any specific rules on bad loan provisions: the general rules on value adjustments, therefore, had to be applied. In order to protect confidence in the banking industry, banks might be permitted to understate the value of certain assets within certain limits. In that case, banks had to create an open fund for general banking risks that would allow them to release some of the hidden reserves.

6. A number of experts from developing countries spoke of events that might promote greater harmonization within their regions, such as the formation of regional accounting associations and regional trade blocs. They noted the absence of such information in the report and commented that a report of that kind should also examine the needs of developing countries and what was being done by developed countries to meet those needs. Developing countries' needs were not always the same as those of the developed countries. Their accounting systems and standards needed to satisfy their own requirements.

7. The observer for the Fédération internationale des experts-comptables francophones (FIDEF) stated that the objective of his organization was to eliminate gaps in accounting standards between the developing and developed countries. He felt that the gap was bound to exist as long as developing countries did not participate in international standard-setting. Therefore, his organization tried to give its members access to documentation and to promote the formation of professional institutions which could develop standards. Consequently, it should not be taken that nothing was happening about harmonization in that region. The expert from Morocco announced the formation of the Maghreb Accounting Committee by Algeria, the Libyan Arab Jamarihiya, Mauritania, Morocco and Tunisia. Its purpose was to harmonize accounting rules among them and to promote the standardization of accounting information. The expert from Mexico identified a number of accounting problems that were impeding comparability in his country and mentioned that the proposed trade agreement between Canada, Mexico and the United States would require greater harmonization in accounting. In his view it would be preferable to use international accounting standards rather than the national accounting rules of one of the partners.

8. At its 2nd meeting, the Group considered the report on national developments in the field of accounting (E/C.10/AC.3/1991/3 and Add.1). Many experts intervened in order to update information on their countries. In particular, experts from countries in transition described accounting reforms that were currently under way. The expert from Hungary said that his country had chosen to incorporate the fourth, seventh, and eighth EC directives into its forthcoming accounting law. It had chosen the EC model over other models because most of its foreign direct investment originated in the EC countries. The EC model also had a firm legal basis and was closer to the Hungarian tradition than, for example, the United States model. However, no model could be lifted and directly applied to Hungary.

9. While the new accounting act had been prepared by the Hungarian Ministry of Finance, there was considerable merit in having a consulting committee to assist in formulating the accounting standards in order to ensure that the views of business people, accountants and academics would be taken into consideration. Lastly, some practices would be retained, such as the use of the chart of accounts. Most bookkeepers needed the chart as a guide because they were not able to decide which accounts they should use. However, the new chart would be simplified and redrafted to conform to the layout of the new balance sheet and income statement headings.

10. The expert from the Union of Soviet Socialist Republics provided some interesting statistics that were indicative of how fast his country was moving towards a market economy. At the present time there were 260,000 cooperatives; 46,000 peasant organizations; 3,000 joint ventures, 42 per cent of which were

operating; and 1,400 commercial banks. Plans for a stock market were under way. The situation was more complicated than in other Central and Eastern European countries because of the sheer size of the Union of Soviet Socialist Republics. Fundamental to the reforms was the law on business activities. Accounting reforms would be based on international accounting standards. The work was proceeding with the assistance of the international task force organized by the Ministry of Finance and the United Nations. The expert from the Soviet Union stated that during 1991 the main documents would be prepared, such as the revised chart of accounts, and it was hoped that a new law would be introduced in 1992.

11. The Brazilian expert announced the introduction of a strategic plan for the improvement of the Brazilian stock market. A total of 50 measures would be undertaken, 10 of them dealing with accounting. For example, historic cost accounting would be eliminated while inflationary conditions persisted, the statement on the sources and uses of funds would be replaced by the cash flow statement and minimum reporting rules would be required for pension funds.

12. The expert from China informed the Group that on 17 December 1990 a stock exchange had been set up at Shanghai. While most of the trading was in bonds, it would later involve stocks as well. The market was linked to other cities via a computerized trading network centred in Beijing. Draft legislation on corporations was currently under preparation.

13. In discussing other moves that would increase harmonization, the expert from Sweden explained that his country was overhauling its company law to conform to all EC directives, including the accounting directives. The EC observer added that negotiations between the Community and the European Free Trade Associations (EFTA) were being concluded and that EFTA countries would be accepting EC directives, including the accounting directives.

14. The expert from the Netherlands described accounting developments in his country, which included conforming to the EC directives, developing a pronouncement on intangibles and improving legislation on the supervision of the stock exchange.

15. The expert from Spain informed the Group that a new general accounting plan had been adopted in his country, as well as regulations on auditing which conformed to the eighth EC directive.

B. Discussion of accounting and reporting issues identified during the eighth session

1. Accounting for and by joint ventures

16. At its 3rd meeting, on 6 March 1991, the Group took up the question of accounting for and by joint ventures, as contained in the report of the Secretary-General (E/C.10/AC.3/1991/4). Since IASC has recently developed a standard on accounting for joint ventures, its Secretary-General was invited to give his observations on the similarities and dissimilarities in the conclusions reached in the two exercises. He explained that it had taken IASC seven years to reach its current formulation of IAS 31. He agreed that it was difficult to

describe and define a joint venture to everyone's satisfaction. Distinguishing joint ventures between jointly controlled operations, jointly controlled assets and jointly controlled entities had been a useful step. In his opinion, the conclusions in the report of the Secretary-General were similar to those of IASC, though possibly the report was less supportive of the proportionate consolidation method. Since a number of methods were permitted in both IAS 31 and in the conclusions of the report, one expert asked why reconciliation was not required between national practices and the IAS "benchmark" treatment, instead of allowing for alternatives. Reconciliation had been considered by the IASC Board but was not required in the end. The Board had chosen the proportionate consolidation method because it better reflected the substance of the joint venture, since with the growth in joint ventures, major companies were transferring some of their activities to them. If they were permitted to use the equity method, then that activity could be offset, whereas it had to be recorded under the proportionate consolidation method.

17. A number of experts were of the opinion that it would not be useful to make the definition of a joint venture too restrictive or to argue from theoretical principles about which was the most appropriate accounting method. Given the great diversity in joint ventures, there would always be a case that would defy principles, no matter what the system of classification. In that regard, it was stated that the legal form was only one element that might influence the choice of accounting method. Therefore, care should be taken not to be too rigid in requiring a specific accounting method dependent only on whether the jointly controlled entity was incorporated or unincorporated.

18. Another expert expressed his appreciation for how well the paper had captured the complexity of the subject and considered that the doubts raised during the eighth session had been resolved. Since accounting was largely a reactive discipline, he was of the view that the accounting methods proposed accorded well with reality. The definition of joint control was crucial and the real test of such joint control was having veto power. In sum, he considered that the conclusions were valid and merited acceptance. The observer for Canada expressed doubts about whether the example of dominant control gave a correct description of the situation. While the partners considered that they had a joint venture, that was not the type described in the report so that none of the recommended accounting methods would be appropriate. In the case of "dominant control" by a partner, full consolidation was appropriate.

19. Some experts discussed the merits of having a "benchmark" treatment in order to discourage the use of a number of options. In the case of a change in joint venture partners, the new investor would not receive useful information without knowing which accounting method had been applied. Therefore, the consistency of a benchmark approach was preferable. Another expert said that options were not undesirable and that uniformity was not always helpful.

20. One expert considered that the conclusions in the report should require more in terms of disclosure. It was particularly important to disclose the accounting method and she suggested incorporating paragraphs 50 to 53 from IAS 31. In addition, from her point of view, it was necessary to disclose either the number or

the share of employees in the joint venture and other non-financial information accordingly.

21. The expert from China stated that for the 30,000 joint ventures in his country, the primary issue was not the choice of the accounting method but the problem of foreign currency translation. Another expert said that was a problem for quite a number of countries and that it should be considered as a future project.

22. The expert from Hungary mentioned that there were more than 10,000 joint ventures in his country and that difficulties arose when partners came from different cultures. Another expert from the same region stated that the report provided a basis for a good general discussion, both for the Group and for other readers. Since the actual situation at the national level was very complex, it was better not to go too deeply into the typology of joint ventures. He emphasized that accounting reform was proceeding rapidly in that region and that the new regulations would be more comparable to Western ones.

23. The Group decided to endorse the report of the Secretary-General (E/C.10/AC.3/1991/4) after redrafting a number of paragraphs. The Group's redrafted conclusions are as follows:

"A. Definition

"1. A joint venture is a contractual arrangement whereby two or more parties combine their resources to participate in an undertaking and jointly control the undertaking for accomplishing agreed-upon goals. A joint venture may take the form of a partnership, a trust, undivided interests in an undertaking, or a corporation (limited liability company). Also, joint ventures are often created in the form of a contractual arrangement for carrying out specific activities without forming a separate organizational structure.

"2. Regardless of the legal form of the undertaking, the characteristics of a joint venture which distinguish it from other ways of carrying out economic activities are:

"(a) The participating venturers (parties) enter into a contractual arrangement, typically a written agreement;

"(b) The joint venture participants, by that contractual arrangement (agreement), are given joint control of the undertaking which is the object of the joint arrangement.

"3. A joint venture arrangement implies that 'joint control' of the venture exists even if the participating venturers have unequal ownership interests in the venture. The participating parties generally decide major policies concerning the undertaking by mutual agreement. In most cases, each of the venturers possesses a 'veto' power regarding the major policy decisions of the joint venture.

"4. Considering the nature of joint venture arrangements, joint ventures can be classified as belonging to one of the following three types:

"(a) Jointly controlled entities. Separate legal entities, they may be corporations, partnerships or any other forms of organization. The entity may be either incorporated or unincorporated;

"(b) Jointly controlled operations. In these situations, no separate entity is formed. Instead, parts of the venturers' existing enterprises work on a common project and co-ordinate their activities;

"(c) Jointly controlled assets. Although no separate entity is created, the resources contributed by the participating venturers are pooled together for the purpose of a joint venture project which is managed either by one managing venturer or by a joint management team, typically known as the operator. Each venturer possesses an undivided interest in these assets.

"B. Accounting by joint ventures in the case of jointly controlled entities

"5. The legal form of a jointly controlled entity determines the procedure of financial accounting and reporting by the joint venture. The jointly controlled entity must follow the conventional or legal requirements on corporate accounting in the country of operation. In the case of financial reporting by international joint ventures, international standards are to be taken as 'benchmarks' that will be adjusted to the local accounting environment.

"C. Accounting by joint ventures in the case of jointly controlled operations

"6. The joint venture activities of a jointly controlled operation are delegated to the participating venturers, and each venturer carries out its part of the activities using its own resources. In this type of joint venture, no separate joint accounts of the jointly controlled operations are normally prepared. Each venturer maintains accounting records for its part of a jointly controlled operation.

"D. Accounting by joint ventures in the case of jointly controlled assets

"7. These joint ventures normally maintain separate accounting records of the expenses incurred for the jointly controlled assets, and the resources received from and the outputs delivered to the joint venture participants. These accounting records are maintained by the operator of the jointly controlled assets.

"E. Accounting for jointly controlled entities

"8. The basic issue in accounting for investments in jointly controlled entities relates to the choice of method of reporting the investments and operations in the financial statements of participating venturers. The choice of method may depend on whether the entity is incorporated or unincorporated.

"9. An unincorporated entity is not usually a juridical person and therefore venturers directly and proportionately control the assets, liabilities, revenues and expenses of the jointly controlled entity. Because of that fact, it is appropriate to combine a venturer's proportionate share of the venture's assets, liabilities, revenues and expenses, with its other fully controlled assets, liabilities, revenues and expenses; this method is generally known as proportionate consolidation.

"10. On the other hand, an incorporated entity itself controls the assets, liabilities, revenues and expenses since it is a juridical person. The venturers, through their joint control over the entity, exercise joint control over the assets, liabilities, revenues and expenses of the entity. However, since the venture's assets etc. are primarily controlled by the incorporated entity itself, it would not be prudent to combine a venturer's proportionate share of these items with those items which the venturer directly and fully controls. The use of the 'expanded equity method' for reporting investments in jointly controlled incorporated entities would take into consideration both the substance and form of the joint venture arrangement. Under this method, a venturer presents its proportionate share of the assets, liabilities, revenues and expenses of the venture in its consolidated financial statements, but as separate line items and without combining these amounts directly with its fully controlled assets, liabilities, revenues and expenses.

"11. Under the expanded equity method, the balance sheet items are shown in two separate lines - one line showing the amount representing the item directly controlled by the venturer (venturer's own and consolidated amount), and the other line showing the amount representing the venturer's proportionate share of the item in the balance sheets of the jointly controlled incorporated entities. Similarly, for revenues and expenses, the separate line items are presented in the consolidated income statement.

"12. If the national law of a country recognizes a form of an unincorporated entity as a legal person and that unincorporated entity possesses most of the characteristics of an incorporated entity, joint venture participants in such an unincorporated entity may treat it as an incorporated entity for accounting and reporting purposes.

"13. Some national accounting standard-setters may prefer the equity method for reporting investments in jointly controlled incorporated entities. The equity method may be used in the case where additional information disclosure is provided in the notes to financial statements on the venturer's proportionate share of assets, liabilities, revenues and expenses of the incorporated entities. Under the equity method, the venturer records its initial investment at cost and then increases (decreases) this amount by its

proportionate share of profit (loss) declared by the venture. When a dividend is received by the venturer, the investment amount is reduced by the amount of dividend received.

"14. The cost method of reporting investments may be used, when the interest in the jointly controlled entity is acquired and held exclusively with a view to its subsequent disposal in the near future, or when the venturer is not in a position to exercise its rightful control over an international joint venture because of political instability, or when the venturer's ability to transfer funds from the venture to itself is significantly impaired by severe and prolonged restrictions. Under the cost method, a venturer records its investment at cost, and reports the investment as a single-line on its balance sheet. Profits earned by the venture are not recognized in the venturer's accounts until such profits are received.

"F. Transactions between the venturer and the venture

"15. The venturers may transfer assets to or from the joint venture or undertake other transactions with the joint venture. These transactions have implications for the recognition of profits or losses. The transfer of assets to the joint venture by a venturer as part of its contributed capital is not a sale. If the valuation of the contributed asset is higher than the book value, then it is an unrealized gain and not a profit. If the valuation of the contributed asset is lower than book value, it is a loss. However, when a venturer sells assets to the joint venture, it is assumed that the venturer is dealing with several independent parties (other venturers) and the venturer should recognize only that portion of profit attributable to the interests of the other venturers. In the case of a loss, the entire loss must be recognized since there has been an impairment of the value of the asset transferred. When a venturer purchases assets from the joint venture, it recognizes the profit or loss only when it resells them to a third party.

"G. Disclosures

"16. In order for the users of financial statements to obtain a clear understanding of its affairs, a venturer needs to make the following disclosures in its consolidated financial statements regarding its interests in jointly controlled entities:

"(a) Accounting policies of the venturer with respect to the investments in jointly controlled entities, including the reason(s) for choosing such policies;

"(b) Name of the joint venture, percentage of ownership interest, contributed and capital commitment for individually significant joint ventures or those which are publicly held;

"(c) In certain circumstances, each venturer may be liable for its share of the liabilities of the jointly controlled entities, and may be contingently liable for the other venturers' share of the liabilities. Disclosures should be made on the venturer's share of any contingencies and commitments of the joint venture, and on the extent of the venturer's responsibilities in the event of a default on the part of the other venturers;

"(d) If a venturer guarantees more than its proportionate share of a joint venture's indebtedness, this fact should be disclosed."

2. Accounting for environmental protection measures

24. At its 5th and 6th meetings, on 7 March 1991, the Group discussed accounting for environmental protection measures, as contained in the report of the Secretary-General (E/C.10/AC.3/1991/5). In introducing the item, the representative of the United Nations Centre on Transnational Corporations mentioned that the previous report on the subject had sparked interest among other groups and institutes. There also appeared to be a growing awareness among securities regulators and business executives. The observer for the Fédération internationale des experts-comptables francophones (FIDEF) stated that developing countries were interested in enjoying a certain quality of life rather than being depots for the developed world's industrial wastes. Unfortunately, such quality was hard to achieve because they did not have sufficient resources to set up control mechanisms or to monitor pollution. Therefore, developing countries were more dependent on international standards for protection. In the area of accounting, financial statements needed to begin to reflect the environmental risks and latent liabilities present in some business operations. More environmental information in financial statements would allow investors to choose less polluting investments. Where environmental information could not be quanti ed, it should at least be disclosed in the notes.

25. The observer for the International Confederation of Free Trade Unions (ICFTU) found the report to be excellent and the information disclosure required to be basic. Moreover, the Group had agreed at its eighth session on the information disclosure necessary in the board of directors' report. She asked whether, in terms of environmental contingent liabilities, existing international standards covered their recognition and measurement. In responding to her question, the Secretary-General of IASC said he found the report useful and valuable. Regarding the rules for recognizing contingent liabilities, they were contained in IAS 1, 5 and 10. However, the International Accounting Standards did not deal with information disclosure in the board of director's report since IASC restricted itself to financial statements themselves. He endorsed the view that at the present time it might be better to let things evolve and encourage better practices rather than laying down rules.

26. The expert from Brazil informed the Group that his country would act as host for the United Nations Conference on Environment and Development in 1992. If the Group wanted to encourage better practices among the preparers of financial statements, it could prepare a new report especially for that meeting in order to make colleagues aware of the issues. It would be a unique opportunity for the profession to be heard. He was of the opinion that, while rigid rules should be avoided, some formulation of recommendations was necessary. The expert from Jordan said that some developing countries needed guidance now. For example, in his region there were serious environmental problems and they would have to be considered in the financial statements of both transnational corporations and domestic enterprises. The problem of environmental contingencies would be acute; the problems had not been as extreme before the Gulf war.

27. One expert reminded the Group that it had agreed at its eighth session that environmental protection measures were an important matter. The new review of industry practices had revealed that it was possible to segment environmental expenditures, current and capital. He noted that some enterprises had also experimented with resource-based accounting, which allowed them to monitor the impact of their operations on the environment. Enterprises also produced special purpose reports on the environment from time to time, since there were other interested parties in addition to financial users. However, despite new research and review, he wanted to refrain from issuing rigid rules. He suggested that the Group should continue to review the content of the board of directors' reports.

28. Another expert questioned whether the segmentation of environmental expenses was really as feasible as suggested in the report. He noted the presence of such words throughout the text as "estimates", "judgement" etc. The resultant amounts were of a soft character, and so it was better at this point to leave it open to enterprises to do what was appropriate. Another expert responded that accountants always had a problem with estimates and the Group should not dwell on it. The important thing was to introduce the concept of "environmental accountability" and have environmental costs appear in board of directors' reports, financial statements and the auditors' reports.

29. The observer for FIDEF noted that the Group was an intergovernmental one and that while self-regulation was desirable, the Group should give some guidance in this area. Recommendations were needed both for the board of directors' report and the notes to financial statements. While IAS 1, 5 and 10 might be sufficient for normal contingent liabilities, he was not sure they were specific enough to deal with environmental liabilities. A number of experts from developing countries spoke of ensuring that companies provided certain minimum information and that the recommendations should go beyond those of the eighth session. It might be advisable to split the recommendations into those that were accepted and those requiring further consideration.

30. Another expert stated that it was necessary to give a true and fair view of operations in financial statements and that they should correctly evaluate environmental measures. The report demonstrated that this evaluation was practicable. He favoured issuing conclusions regarding information disclosure in the report of the board of directors, as outlined in the report. However, he was a bit hesitant on the question of contingent liabilities and thought it would be better to return to it at the ninth session after more review. The observer for Canada related how the Group's previous report had stimulated a great deal of interest in his country and that it was not perceived as final. He said the Group needed to express its view on the current report in order to encourage others to start or continue work in that area.

31. The Group decided to leave the recommendations section of the report (E/C.10/AC.3/1991/5, sect. IV) in its entirety but to change its title to "Conclusions for consideration by Governments and interested parties". The text of paragraphs 64, 66 and 67 was amended, changing the "shoulds" to "coulds", as necessary, so that it was clear that the conclusions were items to be considered rather than requirements.

32. Thus, the conclusions of the Group regarding the issue of accounting for environmental protection measures are as follows:

"Conclusions for consideration by Governments and interested parties

"1. The following are items that could be considered by the board of directors for inclusion in their report/management discussion in order to deal with relevant environmental issues:

"(a) The type of environmental issues that are pertinent to the enterprise and its industry;

"(b) The formal policy and programmes that have been adopted by the enterprise with respect to environmental protection measures;

"(c) In cases where no such policy and programmes exist, this fact could be stated;

"(d) The improvements in key areas that have been made since the introduction of the policy, or over the past five years, whichever is shorter;

"(e) The environmental emission targets that the enterprise has set for itself, and how the enterprise is performing relative to those targets;

"(f) The extent to which environmental protection measures have been undertaken due to governmental legislation and, the extent to which governmental requirements (for example, a timetable for the reduction of emissions) are being achieved;

"(g) Any material proceedings under environmental laws; management should disclose a known and potentially significant environmental problem unless it can objectively conclude that the problem is not likely to occur or, if it does, that the effect is not likely to be material;

"(h) The financial or operational effect of environmental protection measures on the capital expenditures and earnings of the enterprise for the current period and any specific impact on future periods;

"(i) When material, the actual amount charged to operations in the current period, together with a description of the environmental measures to which they relate. This amount might be subdivided into the following general ledger accounts:

"(i) Liquid effluent treatment;

"(ii) Waste gas and air treatment;

"(iii) Solid waste treatment;

"(iv) Analysis, control and compliance;

"(v) Remediation;

"(vi) Recycling;

"(vii) Other (for example, accidents, safety etc.);

"(j) In cases where it is not possible to segregate the amount that relates to environmental protection measures, this fact could be stated;

"(k) When material, the actual amount capitalized during the current period, the accumulated amount capitalized to date, and the period for amortizing, or writing off, such amounts, together with a description of the environmental measures to which they relate. This amount might be subdivided into the categories listed in (i);

"(l) In cases where it is not possible to segregate the amount that relates to environmental measures, this fact could be stated.

"2. As accounting policies are normally described in the notes to the financial statements, the following environment-related accounting policy notes could be included therein:

"(a) Recording liabilities and provisions;

"(b) Setting up catastrophe reserves (through appropriations of retained earnings);

"(c) Disclosure of contingent liabilities.

"3. As contingent liabilities are normally disclosed, if material, in the notes to financial statements, the following environment-related items could be included therein:

"(a) Liabilities, provisions and reserves that have been set for the current period, and amounts accumulated to date;

"(b) Contingent liabilities, with an estimate of the amount involved, unless the event is not likely to occur. The possible loss could be quantified to the extent reasonably practicable. If the possible loss cannot be reasonably calculated, a description of the contingent liability could continue to be furnished and the reason could be given why an estimate of the amount of the loss cannot be made. Completion of a feasibility study of remediation costs may be normally considered as the earliest date at which a reasonable estimate of the liability is possible."

3. Accounting and reporting during and after the transition from State to private enterprises

33. At its 7th and 8th meetings, on 8 March 1991, the Group had before it the report of the Secretary-General containing an overview of accounting and reporting during and after the transition from public to private enterprises (E/C.10/AC.3/1991/6). In the opinion of many of the experts, the report had achieved its modest aim of summarizing for the Group the objectives of privatization and the economic, financial and social conditions which influenced the choice of various financing techniques. That background information had set the stage for the discussion of accounting and valuation problems that could arise during the process. The representative of the Centre suggested that the study of those problems could be enriched through case studies of countries that had implemented such programmes: during the session, a number of experts had informed the Group about the experience of their countries and suggested that they be included in such case studies. It was mentioned that a distinction should be made between privatization of an entire economy or of a large part of an economy and privatization of one or more undertakings within an existing market economy.

34. One expert, in commenting on valuation methods, said that they should be considered as "objective" rather than "subjective", since they should be based on scientific criteria. He wanted to know who should appraise and evaluate enterprises to be privatized. In some countries, the task was given to special banks; perhaps it should be given to special professionals. The observer for the International Assets Valuation Standards Committee defined the "value of assets" as the amount a business would lose if it were deprived of those assets. He said that the value of property was equal to the sum of the value of land plus the gross replacement value of plant and equipment minus obsolescence. However, the appraiser must also take into consideration the profitability of the enterprise.

35. Another expert was of the opinion that the overriding method of valuation was the present value method since the entire operation had to be valued, not just the assets. The subsection of the report on accounting issues had underestimated the difficulties since the use of the present value method was closely linked with management accounting. In order to use the present value method, a good management system had to be in place. Therefore, many accounting problems arose because of the lack of good systems to track expenses and revenues. That lack ultimately made it difficult to value the operation using the present value method. Therefore, there was a strong link between valuation and management accounting systems.

36. A number of experts pointed out that in order to sell an enterprise to either domestic or foreign investors, it was necessary to have good accounting information. It was noted that accounting problems often started at an earlier stage, when a public department became a public corporation. Therefore, any future work on that topic should take into consideration the restructuring of bookkeeping accounts and systems and the preparation of accounting information.

37. The observer for the International Confederation of Free Trade Unions (ICFTU) said that valuation of an enterprise was particularly difficult when that enterprise had to be restructured and often the valuation depended on local

economic conditions. The valuation of enterprises in the former German Democratic Republic had been affected by the economic situation after unification with the Federal Republic of Germany. Many such enterprises were not competitive, could not be restructured or were not being restructured and would be closed. It was estimated that half the labour force would be unemployed as a result. The expert from Germany said that the privatization process was indeed under way in his country. A state-owned trust company, currently owned all the former kombinate and state-owned enterprises. Its task was to privatize, restructure or liquidate enterprises, which could not be run successfully under competitive conditions. To diminish the dilemma between privatization and restructuring, it was decided to give priority to privatization as soon as possible. The necessary restructuring would occur under the new private owner. Thus far, only 700 of the 8,000 to 10,000 enterprises had been sold. The privatization process was further complicated by the process of re-privatization: a general reassignment of property rights to the people whose property had previously been expropriated. That task also included the restitution of enterprises to their former owners. Political priority was given to the restitution but, given the necessity to create employment through economic growth, restitution could be overruled. In that case, compensation had to be paid to the former owners. The number of requests for restitution amounted to about 12,000, about 3,000 of which had been settled. One interesting accounting problem had arisen in the case of a number of enterprises that had previously been expropriated and then merged with other enterprises. The task was to split off the assets and liabilities so that they could be reassigned. He agreed that the choice of valuation methods depended on the situation. It seemed, however, that the most important factor influencing the final selling price was bargaining strength.

38. Experts from developing countries raised a number of issues that were of concern to those countries that had undertaken privatization programmes or would do so. First, there was the question why a Government should sell profitable enterprises; secondly, who would buy unprofitable enterprises. Many enterprises had been in the private sector in the first place and had been taken over by the Government because they were not viable. It was doubtful whether anyone would want to buy them. Very often in order to sell them, the Government had to restructure them and reduce the labour force. A third issue was the high cost of such sales, which, in some instances, ranged from 2.5 per cent to 13 per cent of the final sales revenues. The last question was how could the right price be set to avoid giving windfall gains?

39. One expert said that international organizations required the adoption of privatization programmes in some developing countries as a precondition for aid. Consequently, the Governments of those countries were forced to sell the profitable enterprises and were left with the unprofitable ones. That sometimes resulted in windfall gains to the private sector, while the Government faced continued deficits. It was obvious that guidelines were needed on when to privatize. Another expert said that there seemed to be an implicit assumption that only public enterprises ran at a deficit. That was not always true; in his country, 50 per cent of the private enterprises were in deficit.

40. An expert from a developed country replied to a number of questions raised by experts from developing countries. In explaining why a Government would ever sell a profitable enterprise he noted that the existence of a profit did not necessarily indicate efficiency but could indicate the existence of a monopoly. In that case, the Government would need to ensure that there was some regulatory control after privatization. In some instances, the Government sold profitable enterprises because it felt that it should not compete with the private sector. With regard to the determination of the right share price, it was extremely difficult to pick the correct one and Governments were criticized if the price set appeared low in hindsight, but they would also have been criticized had the price been set too high and the share issue a failure. Where share offerings were large, the Government usually priced them conservatively in order to ensure that all the shares were sold. The cost of sales was sometimes relatively high because of the many steps Governments were obligated to take in order to make sure the process was fair.

41. Another expert said that consideration of the topic was very timely and that transition to a market economy should be accelerated. In his country, the privatization law had been implemented in 1990. However, it would take at least 100 years to sell state enterprises, owing to the lack of domestic savings. Therefore, foreign direct investment was needed.

42. The Group decided that work in that area should be continued and that it should be enriched by country case studies. The main objective of further study would be to identify the accounting problems clearly and to indicate how they had been or could be solved.

4. Organization of the accounting profession and the role and qualification of auditors

43. At its 4th and 5th meetings, on 6 and 7 March 1991, the Group considered the report of the Secretary-General on the organization of the accounting profession and the role and qualification of auditors (E/C.10/AC.3/1991/7). There was much discussion about the term "accountant", which had different meanings in different countries. A distinction was drawn between accountants and auditors: both belonged to the accounting profession but not all accountants were auditors. The Group was reminded that there were many accountants in government service and that although they might not belong to professional bodies, they were qualified accountants and had an important role to perform.

44. One expert suggested that in view of the close nexus between accounting and auditing in the private sector and in the government sector, including the public sector, it would be useful if any new report on the subject were to include that particular aspect.

45. A number of experts were of the view that the report was very useful in that it was an informative summary of how the accounting profession could be organized. It would be helpful both to countries setting up professional bodies and to those needing to improve them. One expert raised the question of the relationship between the objectives of the profession and its education and training

requirements. He asked if, based on the report, the Group could agree on a minimum list of professional requirements. One said that four ingredients were necessary for an effective profession: (1) accounting and auditing standards, (2) a body of qualified people, (3) a professional body and (4) a standard-setting body. As far as he was concerned, the main international organizations (the International Accounting Standards Committee (IASC), the International Federation of Accountants (IFAC) and the Intergovernmental Working Group on International Standards of Accounting and Reporting) were concerned only with the first one. He asked who was going to help the third world in the education of accountants and in developing the accounting profession by setting up standard-setting and professional bodies. The mandates of those organizations did not provide for such help and, since there was no plan of action, a serious vacuum existed. The spokesperson for the Group of 77 and the observer for the Fédération internationale des experts-comptables francophones (FIDEF) said that accounting was a vital element for development and that if the third world was to develop, it would need to establish private professional bodies. Indeed, the development of the profession was inseparable from the development of developing countries, since those that had scarce resources had to be able to account for them. The survey of accounting needs in Africa, reviewed by the Group in 1990, should be more than a theoretical exercise. Ways and means had to be found to set up a professional institute in each country.

46. The observer for the European Community raised the question of who should undertake such actions, the future professionals themselves or government external donors. An expert from a country in transition replied that in setting up the profession and revising accounting regulations, a new institute might find it very difficult to train professionals and set standards without some assistance from the Government and/or international organizations.

47. The expert from Hungary explained how the transformation of the accounting profession was proceeding in his country. Important aspects of the new accounting law that had recently been submitted were that higher qualifications were required (which implied familiarity with international accounting principles, standards and practices); that, in contrast to the previous situation, which had demanded strict compliance with highly detailed accounting regulations, sound business judgement and responsible and prudent management were currently required; and that creativity in the development of an independent accounting policy for the company was called for. Under the new law, a self-organized professional body or bodies would guarantee the representation of the interests of the profession. Through the National Accounting Board that was to be set up, the law permitted the profession to take an active part in the work of regulation and in monitoring implementation. A training programme for some 100,000 accountants was being established in his country. By ensuring clear external social control, the disclosure requirement of the annual report would also raise the prestige and social standing of the profession. The extension of the mandatory audit requirement to a range much wider than before would also effect a change in the composition of the profession.

48. One expert said that the report should be improved by the inclusion of new information, such as recent developments in the accounting profession in China, the link between public and private accountants and the role of accounting in economic development.

49. Concern was expressed about auditors and their independence. Since many external users were totally dependent on their opinions, extreme care should be taken to preserve the independence of auditors. Among the possible safeguards mentioned were restricting individual client fees to 5 per cent of total fees, prohibiting auditors from giving management advice to their clients and eliminating the "limited" liability of auditors where that was the rule.

50. One expert said that, contrary to the implication in paragraph 91 of the report, there was no conflict between the independence of the auditor and legislation regulating the certification and supervision of the auditor. Such legislation could, instead, be a prerequisite for ensuring the integrity and independence of an auditor.

51. In concluding the discussion, an expert from a developing country said that it was important to reduce the gap in the profession in the third world and to raise professional standards. That would require external assistance. He did not understand how such assistance could possibly interfere with the independence of the profession. He saw no contradiction between technical assistance and autonomy. Furthermore, the Group had wanted a comprehensive accounting programme for years and while strong programmes had been developed in many other fields, technical assistance in accounting remained piecemeal and peripheral.

52. The Group was of the opinion that the discussion on the issue had been fruitful and enlightening. Distribution of the report of the Secretary-General to interested parties was encouraged.

C. Identification of accounting and reporting issues for discussion on a priority basis during future sessions

53. At its 11th meeting, on 12 March 1991, the Group identified the following issues for discussion during its tenth session:

(a) Accounting issues arising during privatization, including individual country case studies;

(b) Preparation of the topic for the 1993 session on education, training and the development of the profession in developing countries and countries in transition.

54. The Group agreed that any further work on environmental accounting, particularly the review of information disclosure in the reports of boards of directors, should be included in the reports on global and national developments.

D. Further steps to be taken in relation to the development of the comprehensive information system

55. At its 8th meeting, on 8 March 1991, the Group considered further steps to be taken in relation to the development of the comprehensive information system. It

had before it the report of the Secretary-General containing a description of the databases available in that system (E/C.10/AC.3/1991/8). A representative of the Centre described the overall structure of the Centre's information and database systems. The Group raised a number of questions about the number of user requests and the accuracy of information. The Centre's response with regard to the number and type of users is provided in the table.

Requests by category and type of requestor, 1990

	Requests made by													
	Governments		Intergovernmental organizations		Trade union organizations		Business organizations		Academic institutions		Media and public interest groups		Total	
	No.	Percentage of category	No.	Percentage of category	No.	Percentage of category	No.	Percentage of category	No.	Percentage of category	No.	Percentage of category	No.	Percentage
Developing countries	375	51	18	5	31	15	25	12	149	22	94	24	692	27
Developed market economy countries	251	34	52	13	135	66	178	86	412	61	158	40	1 186	45
Eastern Europe	111	15	--	--	24	11	5	2	74	11	33	8	247	9
International organizations	-	-	320	82	18	8	--	--	41	6	106	27	485	18
Total	737	100	390	100	208	100	208	100	676	100	391	100	2 610	100

A dash (--) indicates that the amount is nil.

A hyphen (-) indicates that the item is not applicable.

/...

E. Accounting and reporting issues arising out of the future code of conduct on transnational corporations

56. At its 8th meeting, on 8 March 1991, the Group considered accounting and reporting issues arising out of the future code of conduct on transnational corporations. A representative of the Centre informed the Group of the latest developments in the negotiations on the code of conduct. There were two major concerns. First, the language of the text was considered by some to be outdated, since parts of it had been drafted many years before. Secondly, since the code would be in the form of recommendations that were not legally binding, the implementation process would have to be carefully reviewed. The negotiations were in the hands of the President of the General Assembly, who would soon be organizing informal consultations. If the code were endorsed by the General Assembly at its forty-sixth session, it would establish a framework for foreign direct investment. He noted that whereas trade was governed by the General Agreement on Tariffs and Trade and finance by the International Monetary Fund (the Bretton Woods agreement), there was no instrument balancing the rights and responsibilities in foreign direct investment. He informed the Group that the latest developments in the code of conduct were described in document E/C.10/1991/8.

F. Appropriate measures to give effect to the work of the Group: renewal of the mandate and review of the objectives of the Group

57. At its 7th, 9th and 10th meetings, on 8 and 11 March 1991, the Group had before it the report of the Secretary-General entitled "Appropriate measures to give effect to the work of the Group: renewal of the mandate of the Group" (E/C.10/AC.3/1991/9). The Executive Director of the Centre reviewed the objectives of the Group and its accomplishments. Among the various achievements he mentioned were the preparation of a number of useful technical reports (on consolidation and segmentation, intangibles, pension costs, and environmental accounting and the report of the board of directors), the issuance of Conclusions on Accounting and Reporting by Transnational Corporations and Objectives and Concepts Underlying Financial Statements, the review of the use of international standards, the survey of accountancy development in Africa and the support for countries in the process of standard-setting through workshops and task forces. Nevertheless, he realized that the Group wanted to make changes in order to increase its effectiveness. In his opinion, such effectiveness depended on the availability of adequate resources, the attendance of experts on a regular basis and the desire to facilitate a fruitful exchange of views. Despite the fact that much had been accomplished, there was still much to be done in the way of implementing international accounting standards. The Group might promote the use of international accounting standards by supporting technical cooperation projects in the area of training, education, organization of the profession and creation of standard-setting bodies. Such technical cooperation projects could best be undertaken in conjunction with other international organizations. What was needed was a comprehensive and well developed technical cooperation programme.

58. The energizer for the Organisation for Economic Cooperation and Development (OECD) said that the Group was unique in that it was the only intergovernmental body considering accounting and reporting issues. It had served a useful purpose and achieved a great deal. He was of the opinion that the Group's mandate should be renewed, provided that the focus of the work changed. The Group should continue its work, avoiding duplication of the work of other organizations. He suggested a shift in orientation from discussion of technical accounting issues to technical cooperation. He was also of the opinion that it was not appropriate for the Centre to do fundamental research. He suggested that the Group change the pace of its sessions: it should meet every two years and in alternate years conduct a workshop on particular problems or on the problems of a particular region. It was understood that all members would be invited to attend such meetings.

59. Another expert, speaking on behalf of the Group of 77, said that the Group had only just begun to accomplish two of its objectives: to serve as a forum for the consideration of accounting and reporting issues and to support national and regional standard-setting. He stressed the importance of the Group, which was the only global intergovernmental body; others were either regional or non-governmental. Because the work of the Group was unique, it had more impact on developing countries since they relied on it when formulating their own standards. With regard to the suggestion about alternating regular meetings with regional ones, he said that the Group had yet to hold the two regional meetings in Africa that had been agreed upon at the eighth session. He recommended meeting annually, but reducing the duration of the session to one week. He said that developing countries needed to participate in that forum on a regular basis because there was so much to be done in developing countries with regard to the development of standards. In addition, the topics that were of most interest to developing countries had yet to be successfully dealt with by the Group, including foreign currency translation and transfer pricing.

60. A number of experts from developing countries suggested that if regional meetings were deemed desirable, the Group should consider participating in the annual meetings of regional accounting associations. Using those regional meetings as a forum would be both cost-effective and the best way to have an impact on the region. They wanted to retain the annual session because they needed a global forum in which issues of a global nature could be discussed. They said that the United Nations was the proper forum and it should continue to be the focus of attention for developing countries. For other regions, such as that covered by OECD, the need for the United Nations was not so great; for developing countries, the United Nations was critical. Particularly important was its ability to conduct research in the areas of special interest to them. Activities should be expanded to include technical assistance in the area of standard-setting.

61. Another expert agreed that the mandate should be renewed. The Group should continue to consider accounting standards and to help countries in their use. He was of the opinion that one year might not be a significant time period when considering national accounting developments. Another expert said that the Group had a number of achievements to its credit. He wanted to retain the annual format because a number of countries were undergoing significant economic reforms, which had implications for accounting.

62. An expert from a developing country stressed that the intergovernmental character of the Group gave experts in developing countries a basis for initiating accounting reforms. He said that research should be the point of departure for the Group's work and that there was still much to be done that was of special interest to developing countries. He said that "accounting standards" were not neutral and that the special needs of developing countries had to be incorporated. In addition, the Group should continue its vanguard role in certain research areas and should concretize its technical cooperation.

63. One expert then summarized the discussion: first, there was unanimous support for renewing the mandate; secondly, all agreed that the Group was important because it was an intergovernmental group; thirdly, many countries had special interests and the exchange of views was important to learn about developments in other countries; fourthly, there should be two types of sessions: regular sessions and those of a special nature, at which particular topics could be studied in depth.

64. An expert from a developed country said that since the Group was intergovernmental, its coverage was broader than that of other groups and its work complemented the work of other groups. The activities of non-governmental bodies such as the International Accounting Standards Committee (IASC) could not substitute for the work of the Group. While he supported the proposal to meet every year for one week, he was flexible and would support a session every two years with alternate meetings on specific topics.

65. The observer for the International Confederation of Free Trade Unions (ICFTU), as one of the long-standing participants in the meetings of the Group, spoke of the Group's unique focus. It dealt with accounting and reporting by transnational corporations from the perspective of both home and host countries. It was also concerned with the impact of transnational corporations on the national and international community; other forums were not. Therefore, when the Group considered an accounting practice, it had a wider range of users in mind. Frequently that perspective was added when the Group arrived at conclusions on a given subject (for instance, accounting for inflation or accounting for research and development expenses).

66. A number of questions were raised about the Uruguay Round, particularly concerning the proposals for mutual recognition of accounting credentials and the use of international accounting standards. If adopted, both could diminish barriers to trade and investment flows in services. Several members of the Group asked what role the Group could play in reviewing and/or implementing those proposals. The representative of the Centre explained that the proposals would probably appear as recommendations within the general framework agreement of the General Agreement on Trades and Services (GATS). However, once GATS was accepted, the mechanics for implementing mutual recognition and use of international standards would be left to the signatories. The Group might wish to involve itself at that stage. One expert from a developed country stated that the Group might not be the most effective one to take up the task. Other experts from developing countries stated that this Group was the only group that should be involved, owing to its intergovernmental character. Some experts from developed countries

indicated that it would be difficult to consider the role of the Group in the matter during the current session because the question was not on the agenda.

67. The observer for the Fédération internationale des experts-comptables francophones (FIDEF) noted the importance of the Group and the annual meetings to the developing countries, especially those that were at the initial stage of accountancy development. The Group provided the only opportunity to close the gap between countries with advanced accounting environments and those with less sophisticated environments. The annual exchange of views was fundamental to that process.

68. The Executive Director of the Centre intervened in the debate, noting that it might be best to consider the main recommendation, that is, giving consideration to global and regional issues, in terms of the impact on the structure of the Group's future agendas rather than on the place or pace of meetings. He thought that it would not be possible to separate research from technical cooperation since if technical cooperation efforts were to be well designed, they had to be founded on research. The Centre combined both research and technical cooperation and had a long-standing interest in the area of information disclosure.

69. After discussing paragraphs 36 and 37 of document E/C.10/AC.3/1991/9, the Group did not adopt the mission statement outlined in the report. Instead, the Group arrived at the following conclusions:

(a) The mandate of the Group should be renewed;

(b) In order to make the work of the Group more effective, it was desirable to extend the duration of the mandate from a three-year to a five-year period so that sessions on general subjects and sessions on specific subjects or on the problems of specific regions could be held in alternate years;

(c) The Group's sessions should be shortened from nine to seven working days;

(d) There should be a shift towards technical cooperation, particularly to meet the needs of developing countries and countries in transition in the development of the accounting profession and standard-setting.

70. The Group also decided to hold sessions on general subjects in 1992, 1994 and 1996 and sessions on specific subjects in 1993 and 1995. In 1993, training and education needs in developing countries and countries in transition would be discussed. Topics for other such sessions would be the problems arising from the transition from state to private enterprises and environmental accounting.

71. At the 13th meeting, on 14 March 1991, the Group adopted a draft decision (E/C.10/AC.3/1991/L.5), entitled "Renewal of the mandate and review of the objectives of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting", which had been submitted by the Rapporteur. The decision contained a recommendation for the Commission on Transnational Corporations (see sect. I, draft decision II).

G. Ways and means of improving education, research and practical training in the field of accounting and reporting in member States

72. At its 12th meeting, on 14 March 1991, the Group considered ways and means of improving education, research and practical training in the field of accounting and reporting in member States. The Centre reported that it had not been able to raise funds to hold the two regional meetings in Africa which the Group had requested during its eighth session. The study on accounting needs in Africa reviewed by the Group during its eighth session had been published and included profiles of the accounting environment in 37 countries. The Group requested the Centre to continue its efforts to organize the meetings and to work with regional and national accounting bodies, as well as other international organizations and departments within the United Nations Secretariat. The Centre should report any progress to the Group at its tenth sessicn.

III. ADOPTION OF THE REPORT OF THE GROUP ON ITS NINTH SESSION

73. At its 12th and 13th meetings, on 14 March 1991, the Group adopted the draft report on its ninth session (E/C.10/AC.3/1991/L.3 and Add.1-7), as revised and amended during the discussion.

IV. ORGANIZATION OF THE SESSION

A. Opening and duration of the session

74. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting held its ninth session at United Nations Headquarters from 5 to 15 March 1991. The Group held 13 meetings (1st to 13th meeting).

75. The session was opened by the Vice-Chairman of the eighth session, Mr. Talal Abu-Ghazaleh (Jordan).

76. At its 1st meeting, on 5 March 1991, the Executive Director of the United Nations Centre on Transnational Corporations spoke about the interrelationships between foreign direct investment, governance and international accounting standards. He noted that foreign direct investment had grown at an unprecedented rate during the 1980s and had surpassed the growth in exports and gross national product. Outflows of foreign direct investments amounted to more than $US 196 billion in 1989 and grew at an annual rate of 30 per cent from 1983 to 1989. However, only 17 per cent of those outflows had found their way to developing countries, an annual average of $US 29 billion. Ten countries accounted for three fourths of that amount. The unprecedented growth in foreign direct investments reinforced the need for a multilateral framework for foreign direct investment and raised anew the broader issue of governance in a world economy in which investment, trade, technology and financial flows were intertwined. Such a framework should include adequate international standards on information disclosure.

B. Membership and attendance 3/

77. In accordance with Economic and Social Council resolution 1982/67, the Group is composed of 34 members, elected on the principle of equitable geographical distribution. Two members from African States, one member from Asian States and one member from Latin American and Caribbean States remain to be elected.

78. The following States members of the Group were represented at the ninth session: Brazil, Chile, China, Cyprus, Czechoslovakia, Egypt, France, Gabon, Germany, Hungary, India, Italy, Jordan, Kenya, Malawi, Mexico, Morocco, Netherlands, Nigeria, Spain, Sweden, Switzerland, Turkey, the Union of Soviet Socialist Republics and the United Kingdom of Great Britain and Northern Ireland.

79. The following States Members of the United Nations were represented by observers: Bulgaria, Canada, Poland, Swaziland and the United States of America.

80. The Commission of the European Communities and the Organisation for Economic Cooperation and Development were represented by observers.

81. The following non-governmental organizations in consultative status with the Economic and Social Council were represented by observers:

Category I: International Chamber of Commerce
International Confederation of Free Trade Unions

Roster: International Assets Valuation Standards Committee

3/ With the approval of the Group, the following organizations attended the session: Arab Society of Certified Accountants, Fédération internationale des experts-comptables francophones, International Accounting Standards Committee and International Federation of Accountants.

C. Election of officers

82. At its 1st meeting, on 5 March 1991, the Group elected the following officers:

Chairman: Marta Aguirre (Mexico)

Vice-Chairman: Hazim Yousef Taha (Egypt)
A. C. Tiwari (India)
Nicolay Panteleev (Union of Soviet Socialist Republics)

Rapporteur: G. G. M. Bak (Netherlands)

D. Agenda and organization of work

83. At its 1st meeting, on 5 March, the Group adopted the following agenda, as contained in document E/C.10/AC.3/1991/1:

1. Election of officers.

2. Adoption of the agenda and other organizational matters.

3. Programme of work of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting.

4. Provisional agenda for the tenth session of the Group.

5. Adoption of the report of the Group on its ninth session.

At the same meeting, the Group approved its organization of work as set out in document E/C.10/AC.3/1991/L.1.

E. Documentation

84. The documents before the Group at its ninth session are listed in the annex to this report.

Annex

LIST OF DOCUMENTS BEFORE THE GROUP AT ITS NINTH SESSION

Document symbol	Agenda item	Title or description
E/C.10/AC.3/1991/1	2	Provisional agenda
E/C.10/AC.3/1991/2	3	Review of important current developments at the global level in the field of accounting and reporting by transnational corporations: report of the Secretary-General
E/C.10/AC.3/1991/3 and Add.1	3	Review of important current developments at the national level in the field of accounting and reporting by transnational corporations: report of the Secretary-General
E/C.10/AC.3/1991/4	3	Accounting for and by joint ventures: report of the Secretary-General
E/C.10/AC.3/1991/5	3	Accounting for environmental protection measures: report of the Secretary-General
E/C.10/AC.3/1991/6	3	Accounting and reporting during and after the transition from public to private enterprises: an overview: report of the Secretary-General
E/C.10/AC.3/1991/7	3	Organization of the accounting profession and the role and qualification of auditors: report of the Secretary-General
E/C.10/AC.3/1991/8	3	Description of the databases available in the comprehensive information system: report of the Secretary-General

Document symbol	Agenda item	Title or description
E/C.10/AC.3/1991/9	3	Appropriate measures to give effect to the work of the Group: renewal of the mandate of the Group: report of the Secretary-General
E/C.10/AC.3/1991/L.1	2	Status of documentation for the session: note by the Secretariat
E/C.10/AC.3/1991/L.2	2	Organization of the work of the session: note by the Secretariat
E/C.10/AC.3/1991/L.3 and Add.1-7	5	Draft report
E/C.10/AC.3/1991/L.4/Rev.1	4	Draft provisional agenda for the tenth session of the Working Group: note by the Secretariat
E/C.10/AC.3/1991/L.5	3	Renewal of the mandate and review of the objectives of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting: draft decision

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